

Research Markets Today

7 June 2024

Events Round-Up

NZ: Vol. of building work (q/q%), Q1: -4.0 vs. 0.5 prev.

AU: Home loans value (m/m%), Apr: 4.8 vs. 1.5 exp.

AU: Trade balance (\$b), Apr: 6.5 vs. 5.4 exp.

GE: Factory Orders (m/m%), Apr: -0.2 vs. 0.6 exp.

EC: ECB Deposit rate (%), Jun: 3.75 vs. 3.75 exp.

US: Trade balance (\$b), Apr: -74.6 vs. -76.5 exp.

US: Initial jobless claims, wk to 1 Jun: 229 vs. 220 exp.

Good Morning

Net market movements have been mostly small, with signs of consolidation across equities, bonds and currencies. European rates are slightly higher after the ECB's "hawkish cut" and Treasury yields are little changed. The NZD has consolidated around the 0.62 mark and cross movements are negligible. Oil has been the biggest mover, up 2%.

As widely anticipated, the ECB kick started an easing cycle, following in the footsteps of recent rate cuts by Switzerland, Sweden and Canada. The ECB cut its policy rates by 25bps, which takes the deposit rate down to 3.75%. While the Governing Council (GC) noted the progress in bringing down inflation it also noted "domestic price pressures remain strong as wage growth is elevated, and inflation is likely to stay above target well into next year." Inflation forecasts were revised up by 0.1-0.2% through 2024 and 2025 so inflation now isn't back to target until 2026. Regarding the policy outlook the GC "will keep policy rates sufficiently restrictive for as long as necessary", will be data dependent, and it is "not pre-committing to a particular path".

In the press conference, President Lagarde was non-committal on the timing of the next rate cut. All but one GC member voted for a cut, later confirmed as perennial hawk Holzmann. The market saw the rates decision as a "hawkish cut" and pared some of the easing priced in the curve in the order of 3bps for 2024. As for timing of the next 25bps rate cut, the market ascribes September as more than a 90% chance, with the July meeting likely to be skipped, and some 44bps of easing priced through to the end of the year. On a day of little net movement in the US Treasuries and lower UK rates, Germany's 2-year and 10-year rates are up 4bps for the day.

In economic news, US initial jobless claims rose 8k last week to 229k. While the data show a mild drift higher in trend, seasonal adjustment issues are widely seen to be partly a factor in the rise. In a separate report by Challenger and Gray, job cut announcements remained flat in May, while hiring announcements were at their lowest level in a decade.

The key employment report is released tonight (see below) and ahead of its release, new figures from the Quarterly Census of Employment and Wages suggest that payrolls grew about 60k less *per month* on average last year than published. Revisions will be incorporated into the official figures with the usual benchmark adjustment next February. During economic slowdowns, the BLS typically over-estimates the creation of new jobs in the payroll figures, so a downward adjustment shouldn't be a surprise.

Following a more than 30bps drop in five trading sessions, the US 10-year Treasury yield has consolidated just under 4.3%, showing little net movement on the day. The same goes for the 2-year rate, steady at 4.72%. Equity markets are also in a consolidation mode, and after yesterday's fresh record closing high, the S&P500 is down slightly.

Currency markets also show little net movement. Knee-jerk strength in EUR to just over 1.09 after the ECB's announcement proved fleeting and it is back below the figure. All key majors we follow closely have moved less than 0.2% against the USD from the NZD close. In early afternoon trading yesterday, the NZD reached a fresh 3-month high of 0.6215, close to levels reached in February and March, before fading, so that will be marked as a key resistance level. The currency has since consolidated near 0.62. NZD cross movements have been negligible.

With few markets showing any spark, it is worth noting that after their recent tumble, oil prices are up around 2%. While this might simply reflect a bounce-back from oversold levels, the market was supported by comments by the Saudi Energy Minister that OPEC+ retains the option to pause or reverse production changes if necessary, easing market fears that the group would allow the oil market to become over-supplied. Brent crude is trading around USD80 per barrel.

Yesterday, global forces drove down NZ rates, with NZGB yields down 3-4bps across the curve and swaps down 4bps. Market focus was on NZDM's syndicated tap of 2028 bonds. In the event, \$3.5b of these bonds were issued, less than the \$4b maximum NZDM was seeking.

In the day ahead in NZ we'll get more Q1 activity indicators that will help firm up our GDP estimate for the quarter, which currently sits at a 0.1% contraction. China trade data are released but the key focus will be on the US employment report, where the market expects a 185k lift in non-farm payrolls, a steady unemployment rate of 3.9% and average hourly earnings steady at 3.9% y/y.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufacturing sales vol. (q/q%)	Q1	-0.6	10:45	
CH	Exports (USD, y/y%)	May	5.7	1.5	
CH	Imports (USD y/y%)	May	4.4	8.4	
GE	Industrial production (m/m%)	Apr	0.2	-0.4	18:00
CA	Unemployment rate (%)	May	6.2	6.1	00:30
US	Nonfarm payrolls change (k)	May	185	175	00:30
US	Unemployment rate (%)	May	3.9	3.9	00:30
US	Avg hourly earnings (m/m%)	May	0.3	0.2	00:30
US	Avg hourly earnings (y/y%)	May	3.9	3.9	00:30

Source: Bloomberg, BNZ

Currencies						Equities				Commodities				
Global froces		Indicative overnight ranges (*)			Other FX		Major Indices				Price (Near futures, except CRB)			
	Last	% Day	Low	High	Last	% Day	Last	% Day	% Year	Last	Net Day			
NZD	0.6204	+0.2	0.6174	0.6205	CHF	0.8906	-0.3	S&P 500	5,346	-0.2	24.8	Oil (Brent)	79.85	+1.8
AUD	0.6672	+0.4	0.6634	0.6673	SEK	10.391	-0.1	Dow	38,887	+0.2	15.8	Oil (WTI)	75.54	+2.0
EUR	1.0893	+0.2	1.0862	1.0902	NOK	10.545	-0.3	Nasdaq	17,169	-0.1	29.3	Gold	2369.8	+0.7
GBP	1.2794	+0.0	1.2763	1.2800	HKD	7.810	-0.0	Stoxx 50	5,069	+0.7	18.0	HRC steel	735.0	-0.9
JPY	155.67	-0.3	155.65	156.44	CNY	7.245	-0.0	FTSE	8,285	+0.5	8.6	CRB	287.7	+0.5
CAD	1.3667	-0.2			SGD	1.346	-0.2	DAX	18,653	+0.4	16.6	Wheat Chic.	661.3	-1.1
NZD/AUD	0.9299	-0.2			IDR	16,263	-0.1	CAC 40	8,040	+0.4	11.5	Sugar	19.22	+0.5
NZD/EUR	0.5695	-0.1			THB	36.42	-0.5	Nikkei	38,704	+0.6	21.3	Cotton	75.44	+1.4
NZD/GBP	0.4849	+0.1			KRW	1,366	-0.5	Shanghai	3,049	-0.5	-4.7	Coffee	233.4	+1.0
NZD/JPY	96.58	-0.1			TWD	32.27	-0.2	ASX 200	7,822	+0.7	9.9	WM powder	3340	+0.3
NZD/CAD	0.8479	-0.0			PHP	58.61	-0.3	NZX 50	11,973	-0.2	1.8	Australian Futures		
NZ TWI	72.91	+0.0						VIX Index	12.75	+1.0	-8.7	3 year bond	96.09	0.02
												10 year bond	95.78	0.00
Interest Rates						NZ Government Bonds				NZ BKBM and Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last	Chg		Last	Chg	Last	Chg	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	5.50	5.60	4.60	3.90	USD	4.28	0.00	15-May-26	4.82	-0.03	BKBM 1-mth	5.60	0.00	
AUD	4.35	4.35	4.17	4.40	AUD	4.23	-0.02	15-Apr-27	4.65	-0.03	BKBM 3-mth	5.63	0.00	
NZD	5.50	5.63	5.01	4.51	NZD	4.64	-0.03	15-May-28	4.57	-0.04	1 year	5.45	-0.01	
EUR	4.00	3.75	3.32	2.79	GER	2.55	0.04	20-Apr-29	4.52	-0.03	2 year	5.01	-0.04	
GBP	5.25	5.30	4.63	3.88	GBP	4.17	-0.01	15-May-30	4.51	-0.03	3 year	4.73	-0.04	
JPY	0.08	-0.03	0.39	1.00	JPY	0.96	-0.05	15-May-31	4.55	-0.03	5 year	4.49	-0.04	
CAD	4.75	5.00	4.27	3.67	CAD	3.38	-0.00	15-May-32	4.59	-0.03	7 year	4.46	-0.04	
								14-Apr-33	4.61	-0.03	10 year	4.51	-0.04	
								15-May-34	4.64	-0.03	15 year	4.64	-0.04	
								15-May-35	4.69	-0.03				
								15-May-37	4.80	-0.03				
								15-May-41	4.91	-0.03				
								15-May-51	4.91	-0.03				
								15-May-54	4.94	-0.03				

* These are indicative r 06:55
 please confirm rates with your BNZ dealer
 Rates are as of: NZT
 Source: Bloomberg

NZD exchange rates

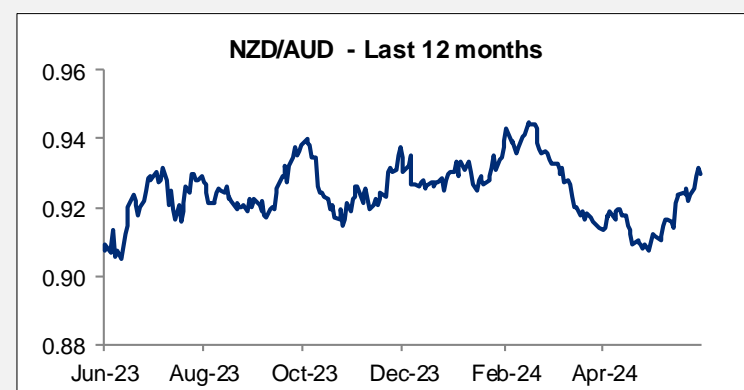
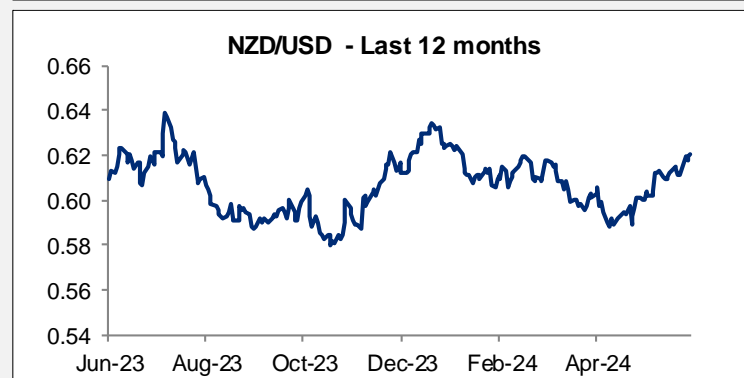
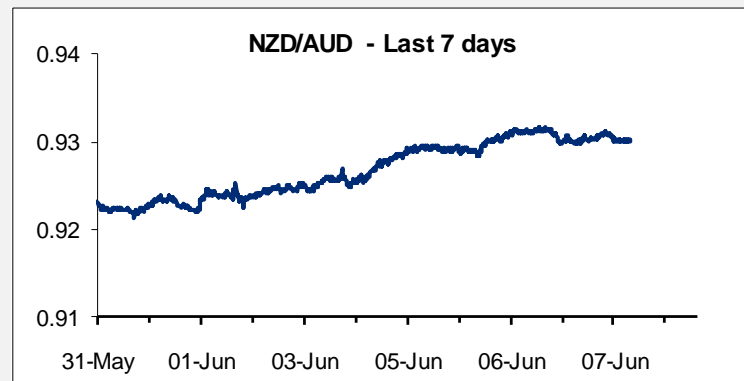
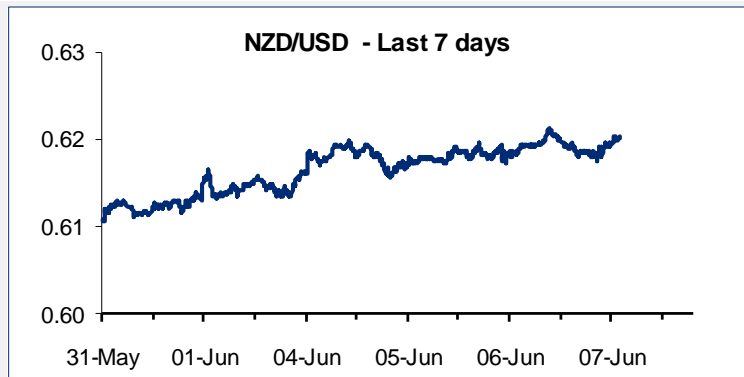
7/06/2024 6:56 am		Prev. NY close
USD	0.6204	0.6193
GBP	0.4849	0.4843
AUD	0.9299	0.9316
EUR	0.5695	0.5698
JPY	96.58	96.68
CAD	0.8479	0.8481
CHF	0.5525	0.5533
DKK	4.2486	4.2501
FJD	1.3926	1.3951
HKD	4.8450	4.8378
INR	51.79	51.64
NOK	6.5423	6.5538
PKR	172.66	171.02
PHP	36.37	36.41
PGK	2.3734	2.3674
SEK	6.4464	6.4386
SGD	0.8347	0.8353
CNY	4.4948	4.4885
THB	22.63	22.72
TOP	1.4295	1.4352
VUV	74.48	74.19
WST	1.6839	1.6824
XPF	68.19	68.10
ZAR	11.7237	11.7289

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.12	0.08
3 Months	-0.56	-0.11
6 Months	-3.05	-2.05
9 Months	-7.09	-5.09
1 Year	-11.43	-8.43

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.44	-8.00
3 Months	-24.88	-23.85
6 Months	-47.41	-44.84
9 Months	-67.06	-62.33
1 Year	-82.91	-75.07



Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Stuart Ritson

Senior Interest Rate Strategist
+64 9 9248601

Mike Jones

BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington

Level 2, BNZ Place
1 Whitmore Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

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